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10 November 2025

Ms Stephanie Jolly
Executive General Manager Consumers & Markets
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

email: [redacted]

Dear Ms Jolly

Ergon Energy's waiver application against the Australian Energy Regulator's Ring-fencing Guidelines – 24 new energy storage devices

Under the National Electricity Rules, Ergon Energy Corporation Limited (Ergon Energy Network) must comply with the Australian Energy Regulator's (AER) Electricity Distribution Ring-fencing Guideline (the Guideline).[1] The Guideline permits Ergon Energy Network to apply for a waiver of the legal separation obligations. Ergon Energy Network is seeking a waiver for 24 low voltage connected energy storage devices under the streamlined waiver process.

Ergon Energy Network looks forward to providing continued assistance to the AER in considering our enclosed application. Should you require additional information or wish to discuss any aspect of this application, please do not hesitate to contact myself, or Andrew Bozin, Policy and Regulatory Reform Specialist, on [redacted].

Yours sincerely

[redacted]

Benn Barr
Executive General Manager Regulation, Risk & Strategy
Telephone: [redacted]
Email: [redacted]

Encl: Ergon Energy Network's streamlined waiver application

[1] Clause 6.17.2.

New Energy Storage Devices Waiver Application

This application is for DNSPs who wish to apply for a waiver of its obligation under clause 3.1 of the Electricity Distribution Ring-fencing Guideline in respect of a New Energy Storage Device and believe they meet the criteria for a streamlined waiver as set out in Explanatory Statement to the guideline (Version 3). If applying for a waiver of obligations other than clause 3.1, a full waiver assessment process will be needed.

Please attach any relevant documents.

Applicant Information

1	**Name(s)**	Ergon Energy Corporation Limited (Ergon Energy Network)
2	**Project description**	Ergon Energy Network is undertaking the installation of 24 battery energy storage systems (BESS). The BESS will be connected to the Ergon Energy distribution network at the low voltage (LV) level and will provide value to consumers via network support services and National Electricity Market (NEM) participation through a retail partner. The BESS will be a combination of 30kW / 60kWh, 40kW / 80kWh and 60kW / 120kWh systems mounted on poles. The BESS are connecting to Ergon Energy Network's distribution network in North Townsville - see Appendix A for more details. The BESS were originally planned as part of a Local Renewable Energy Zone (LREZ) pilot project but have been rescoped under a more targeted approach to create smaller Battery Neighbourhoods,[1] complementing community batteries being deployed in Queensland with funding from the Australian Government.[2] BESS units are considered fundamental to a renewables-enabled future energy system, because they can provide unique services (which are not yet valued or difficult to value), including: • supporting system strength; and • providing local network support, such as capacity and voltage management, in areas with large and growing penetrations of solar photovoltaic (PV).

[1] Local Renewable Energy Zones | Talking Energy.

[2] Community Batteries for Household Solar program - DCCEEW and ARENA funds national community battery roll out - Australian Renewable Energy Agency (ARENA).

The BESS will be available for use by a third party in accordance with the terms of an arms-length commercial arrangement, for participation in wholesale energy arbitrage, ancillary services, and other emerging markets, further benefiting customers through lower overall energy costs.

To test the market for retail partners, Ergon Energy Network in partnership with Energex Limited (Energex) engaged with five major retailers via direct email contact on 30 May 2025. Ergon Energy Network and Energex approached these Tier 1 and 2 retailers because they have sufficient capability and maturity, reducing the risk of them defaulting on their commercial obligations. Following the granting of a short extension, all recipients of the call for expressions of interest had until 18 July 2025 to provide submissions.

Two of the retailers provided submissions, which were then evaluated using criteria relating to technical integration, business model, network orchestration and timing. Following this process, [redacted] was selected, subject to the AER approving this waiver application.

Retail partner access to the BESS will be subject to the conditions imposed by Ergon Energy Network, including:

- the ability for the network business to use on-call capacity of the BESS for demand response to reduce network risks;
- BESS voltage performance for supporting network voltage management; and
- the BESS will be behind dynamic connections[3] with monitoring and verification, so they cannot add to network capacity risks when operated by the retail partner.

3 Reason for waiver

Rationale for supplying excess capacity to third parties

The Queensland Government has provided funding through Energy Queensland to Ergon Energy Network for the 24 BESS that are the

[3] https://www.ergon.com.au/network/our-services/connections/residential-and-commercial-connections/solar-connections-and-other-technologies/dynamic-connections-for-energy-exports/about-dynamic-connections.

subject of this waiver application.[4] The proposed waiver will enable Ergon Energy Network to maximise the overall benefits of these BESS by sharing BESS capacity with retail partners. This would occur while limiting the cost to customers, with Ergon Energy Network excluding the BESS from its regulated asset base (RAB). On that basis, an assessment and comparison of network benefits versus non-network benefits has not been included in this application. However, as we outline below, Ergon Energy Network will annually provide actual usage information that can be used to assess the combined value of the BESS.

Estimate of the expected annual utilisation of battery capacity

Despite Ergon Energy Network now sharing the capacity of some of its initial BESS with retail partners, there is currently insufficient data available to provide a meaningful estimate of the expected annual utilisation of BESS capacity for distribution services and for other services in contestable markets. For instance, Ergon Energy Network's capacity sharing agreements do not cap network usage and the BESS operate within a dynamic operating envelope at their connection points. BESS usage will also vary depending on the network location. This makes it difficult to establish a clear basis for forecasting.

Ergon Energy Network is committed to fulfilling the standard energy storage ring-fencing waiver requirement to provide a comparison of the uses (volume and frequency) of the BESS that confirms its different uses, as part of its annual ring-fencing compliance assessments. This will help provide the evidence base for distribution network service providers to develop robust estimates of expected annual capacity utilisation for BESS installed in the future.

We will also continue to examine the trade-offs associated with different levels of utilisation across the services (including how and when each service is offered), with the aim of maximising the total value. This information will inform operational models for the transition to more complex and interactive grids managed by distribution system operators.

[4] https://statements.qld.gov.au/statements/100676.

4	**Period of the waiver**	The BESS are being installed from now into 2027. Ergon Energy Network proposes the waiver commences immediately upon commissioning of each BESS and expires on 30 December 2042, to align with the estimated life of the BESS.

Supporting information for waiver application

This section is to provide information that will assist the AER's assessment of whether the benefits outweigh the costs for the battery project.

5	**Costs if waiver not granted**	If the waiver is refused, Ergon Energy Network will only be able to use the BESS for distribution services and the BESS will not be used to the extent possible to provide additional "other services" and help put further downward pressure on electricity prices for customers. In the absence of an established value-stacked market, investor hesitancy will likely hinder the establishment of a market in time to address the impacts of rapidly declining minimum demand on the security and reliability of our network. For example, there has been a slow build of capacity for the wholesale demand response mechanism, with a total registered capacity of only 74.4 MW across New South Wales, Victoria, South Australia and Queensland.[5] Overarchingly, refusal of the waiver would result in: • the benefits described in section 6 below not being realised; • market benefits, through shared learnings, not being realised; and • alternative solutions to address the challenges associated with increasing minimum demand into the future, needing to be delivered as part of Ergon Energy Network's common distribution services. Additionally, the refusal of this waiver application would be a missed opportunity to help relieve the ongoing tension between higher energy prices for customers, with market volatility forecast to increase as the transition to net zero accelerates, and poorer network performance in the long term.

[5] AEMO, *Wholesale Demand Response Annual Report, June 2025*, p 3.

6	**Benefits if waiver granted**	The National Electricity Objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of customers of electricity with respect to: • price, quality, safety and reliability and security of supply of electricity; • the reliability, safety, and security of the national electricity system; • the achievement of targets set by a participating jurisdiction— o for reducing Australia's greenhouse gas emissions; or o that are likely to contribute to reducing Australia's greenhouse gas emissions. The prior Energy Security Board also acknowledged the need for regulatory arrangements to evolve to support the impacts of two-way energy flows on the ability of networks to transport and deliver electricity safely, securely, and reliably.[6] In support of the imperatives outlined above, we consider Ergon Energy Network's ownership of the BESS and sharing of capacity with third parties can help deliver more efficient outcomes in the long term by: • demonstrating the shared value of distribution connected energy storage to a hesitant and immature market; • de-risking entry for private investors; and • informing regulatory decisions to support the creation of a deep and liquid energy storage market.

Evidence demonstrating that the risk of cross subsidisation is sufficiently addressed or does not arise

Applications that sufficiently address risk of cross subsidisation or where the risk does not arise could be eligible for the streamlined waiver process.[7]

[6] ESB, *Summary of the final reform package and corresponding Energy Security Board recommendations*, p 4.

[7] AER, *Electricity Distribution Ring-fencing Guideline – Explanatory Statement (Version 3)*, p 29-31.

7	**Cost Allocation**[8]	The capital cost of the BESS for Ergon Energy Network under this program is $8 million, wholly funded by Queensland Government via Energy Queensland Limited (Ergon Energy Network's parent company). Each battery arrangement will be treated the same way as any other customer connection to the distribution network. The entire capital project including connection assets, BESS assets and associate control assets will be funded from unregulated project funding. Ergon Energy Network will not use the Demand Management Innovation Allowance to meet any of the costs of the BESS. The BESS will be classified as unregulated assets and be excluded from Ergon Energy Network's RAB. The connection assets up to the BESS connection point will be treated as an alternative control service connection, therefore the customer (i.e., unregulated project) will fund the connection assets upfront, which will then be transferred to the network RAB at zero cost to ensure the correct allocation of connection charges to the retailer. The ongoing maintenance of the BESS asset will be funded from unregulated project costs and be excluded from Ergon Energy Network's regulatory operating costs, consistent with the principles of our approved cost allocation methodology. The ongoing maintenance of the transferred connection assets is a standard control service, therefore the maintenance of the connection asset will be funded by the distributor (Ergon Energy Network) and recovered via network charges (Distribution Use of System charges), which will be paid by the retailer. For completeness, the: • BESS asset will include inverters, batteries, and control equipment; and • connection assets will include the cable/wire and a pole.

[8] For information on cost allocation methods, see AER, *Electricity Distribution Ring-fencing Guideline – Explanatory Statement (Version 3)*, p 35-36.

8	**Process to engage third party suppliers of network services[9]**	Both Ergon Energy Network's and Energex's demand management programs demonstrate there is limited behind the meter BESS being offered for network support through demand management or demand response programs. Ergon Energy Network and Energex continue to engage the market via mechanisms such as our online rewards maps and requests for proposals for non-network services as alternatives to investment in feeders.[10] Also, Energex was unable to reach contractual agreements with third-party BESS providers for two RIT-D processes where BESS were identified as the preferred options.[11] More recent RIT-D processes identify the potential customer solar PV and BESS systems to help meet network needs, but there is limited BESS uptake by business customers with larger solar PV systems in the relevant network areas.[12] While we have received some market interest through these engagements, we have been unable to contract any energy storage due to a combination of lack of interest, absence of commercial value, the targeted nature of the distribution needs and the associated network requirements. Despite this, we continue to actively engage with the market for these services. Similarly, our efforts to contract demand response from small customers have not yet been successful, given the difference between the price points on offer versus the value for the network. Looking to the future, Ergon Energy Network and Energex are developing an Aggregated Demand Response Program to enhance the ability to procure aggregated flexible demand from market providers.[13] In the meantime, in the absence of sufficient demand response, these LV BESS offer an alternative to network augmentation in the distribution network. The locations in which the BESS are connected are areas with high and forecast to increase local DER penetration, and where the

[9] AER, *Electricity Distribution Ring-fencing Guideline – Explanatory Statement (Version 3)*, p 34-37.

[10] https://www.ergon.com.au/network/manage-your-energy/cashback-rewards-program/request-for-proposals-and-eoi and https://www.energex.com.au/manage-your-energy/cashback-rewards-program/request-for-proposals-and-eoi/feeder-limitations.

[11] https://www.energex.com.au/__data/assets/pdf_file/0015/1002165/Coomera-Final-Project-Assessment-Report.pdf and https://www.energex.com.au/__data/assets/pdf_file/0020/1002188/Logan-Village-Final-Project-Assessment-Report.pdf.

[12] For example, see https://www.ergon.com.au/network/our-services/projects-and-maintenance/rit-d-projects/pdf/qld/atherton/Atherton-Final-Project-Assessment-Report.pdf, p 23.

[13] https://www.ergon.com.au/network/manage-your-energy/managing-electricity-demand/demand-management-plan/pdf/Demand-Management-Plan-2025-26.pdf, page 15.

		BESS could support network risk reduction. This, coupled with the fact the BESS are not being funded through charges for standard control services, reflects Ergon Energy Network's commitment to the provision of non-network alternatives, including energy storage, to address identified needs on our network, in ways that minimise impacts on customers' electricity bills.
9	**Any other information**	As part of this arrangement, Ergon Energy Network is committed to publicly sharing information, which may include total capacity installed, impacts of operating envelopes, connection arrangements, impacts of network and market needs and network benefits, where doing so does not compromise customer interests, network security, ring-fencing requirements or the commercially sensitive information of any party. Such information can be shared via publication of information and presentations at conferences. Ergon Energy and Energex repeatedly engage industry through conferences to discuss their experiences, and the opportunities and challenges presented by energy storage, in an effort to lift industry awareness and capability.[14] If the AER determines it is necessary to include reporting conditions when granting a waiver, Ergon Energy would prefer that it provide a year-to-year comparison of the use of the battery 'on an annual basis'. This would provide a degree of flexibility and enable Ergon Energy to package this reporting with its annual ring-fencing compliance report.

[14] For example, the Solar and Storage Live Australia 2024 Conference, Latest Learnings from Energy Queensland's Battery Program presentation, 2 May 2024; the Energy Storage Australia Conference, Panel Discussion on Harnessing Distributed Batteries for Australia's Path to Net Zero, 18 March 2025; and the Battery Asset Management Summit Australia, Panel Discussion on Asset Management 101: Fundamentals and Grid Forming Technologies in BESS and Panel Discussion on Tripling Operational Capacity – Unlocking Market Opportunities and Grid Stability with Grid Forming BESS, 26 August 2025.

Appendix A – BESS Location Details

Townsville was originally selected as the location for a LREZ pilot based on:

- upcoming new residential developments and the mix of existing homes (rental and owner-occupied, detached houses and apartments);
- upcoming new commercial developments and existing commercial customers (including some with significant electrification plans); and
- the characteristics of the local network.

Most of these factors still make Townsville an ideal location for new BESS, even without the LREZ. Below are [CONFIDENTIAL] forecasts for the relevant Black River, Bohle Plains and Alan Sheriff zone substations, in particular showing fast-growing solar PV inverter capacity and falling minimum demand — key reasons for placing the BESS at these locations.

Black River Zone Substation

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Bohle Zone Substation

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Alan Sheriff Zone Substation

- [redacted]
- [redacted]
- [redacted]
- [redacted]

The network infrastructure in the area is quite dense, with customer connections linked to feeders that also connect to two other zone substations, Dan Gleeson and Garbutt. The exact locations for some of the BESS are still being decided based on technical assessments and discussions with local stakeholders. The locations (and therefore whether these two other substations are relevant) may change until close to each BESS's deployment.